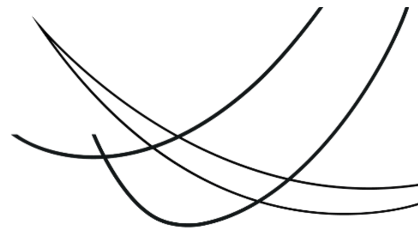


FP Tyndall Global Fund Commentary – July 2018

"It is better to walk alone than with a crowd going in the wrong direction" - Gandhi

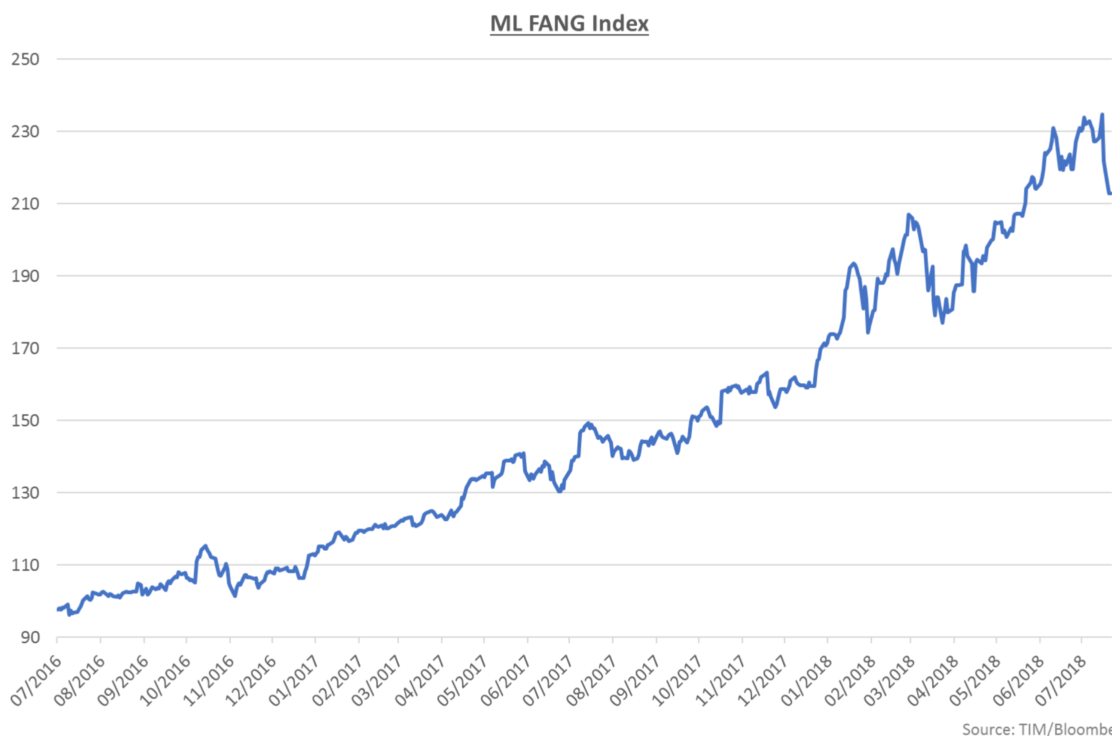
Global equities continued to advance in July despite the United States blowing hot and cold over imposing tariffs on the rest of the world. Jean-Claude Juncker, The President of the European Commission, travelled to Washington, and after a three-and-a-half-hour meeting with President Trump announced to the awaiting press that *"I came for a deal; we made a deal"*, however the deal was only that the US hold off on further tariffs and set up a working group to work towards reducing them in future.

The FP Tyndall Global Fund (B Inc) rose by 3.04% over the month, raising the year-to-date returns to 6.94%.

President Trump has had German Auto-manufactures in his sights since his campaign trail, so Mr Juncker will see it as a success that the existing tariffs will not be increased for the time-being; much to the Germans' relief. We believe that there is an imbalance that needs to be addressed as the EU imposes a 10% tariff on US-built cars, while the US only imposes a rate of 2.5% on those assembled in Europe (although the rate on European pick-ups and vans is 25%). We believe that rather than raising the US rate to penalise the European OEMs a more proactive move would be to lower the EU rate despite the objections that will be undoubtedly be raised by the various European unions and manufacturers.

Facebook and Twitter (neither of which are held in the Fund) hit the headlines this month, both falling 19% in a day after reporting their half-year numbers and have continued to fall since; the fall in Facebook equating to a £136 billion decline in Market Cap. Both companies showed decent growth in revenues and profitability however their outlook statements caused investors to raise concern that future growth may be more subdued. Facebook warned the market that the traditional core business growth is likely to slow and that the growth in Instagram and WhatsApp is unlikely to offset the margin pressure from an increased focus on privacy and cybersecurity. Twitter, the President's favourite medium, suffered as it disclosed a decline in monthly active users and forecasts this decline to increase by a further 'mid-single-digit millions' in the coming months.

Although it could be argued that these stocks where outliers (and the results from Microsoft, Apple and Amazon seem to suggest so) investors have started to raise concerns that the fantastic run in technology stocks may be coming to an end and that led to vicious sell-off across the sector towards the end of the month. We are more sanguine about this and the Fund continued to be exposed to the US Information Technology sector with holdings in Microsoft, Accenture, Fiserv, Apple, Visa, Intuit and Amazon.



We believe that the growth in Exchange Traded Funds and Smart Beta magnifies the selling pressure. This is especially true for the technology sector where there are over 170 specialist technology funds therefore compounding the required sales in benchmark index ETFs. At the end of 2017 the number of Equity ETFs totalled 3,899 with $3.7 trillion assets under management (the total ETF market being $4.7 trillion)[1] and by May 2018 the ETF market had grown to over $5.2 trillion. Excluding JP Morgan (4th Largest), the largest stocks by weighting in the MSCI World Index are all technology names and feature in multiple funds and with significant weights.

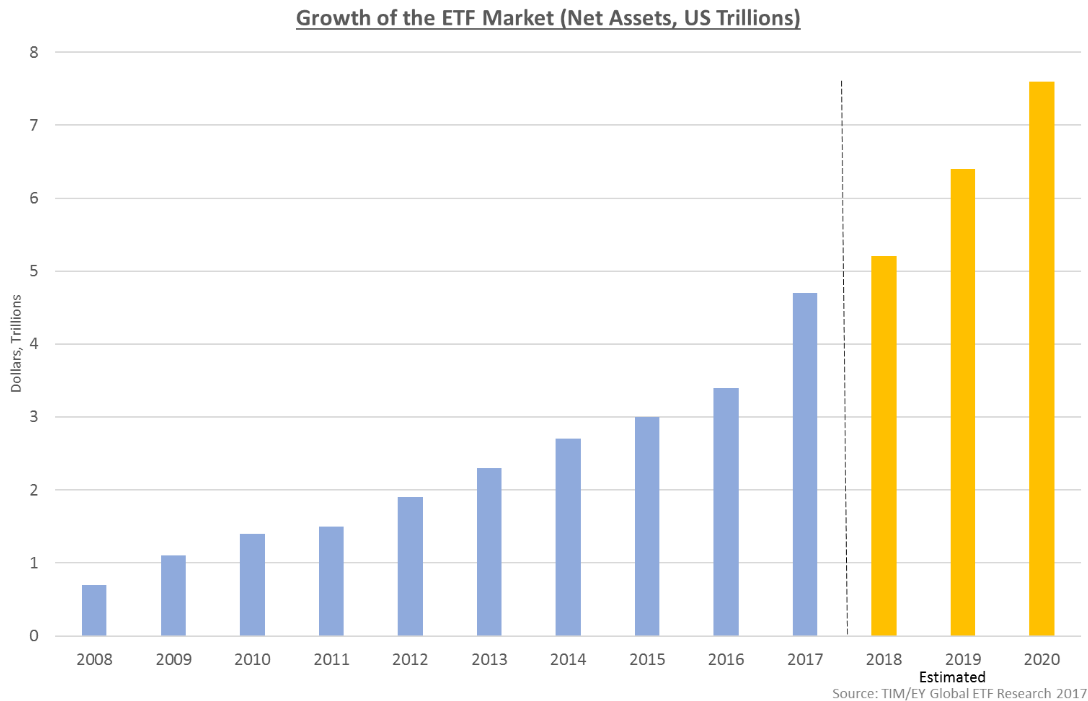
	Number of ETFs Holding Company	Number where in Top 15 Holdings
Apple	288	149
Microsoft	281	165
Amazon	239	154
Facebook	245	109
Alphabet	293	217

Source: ETFdb.com

Sentiment change, owing to a stock in the same sector, but unrelated in product offering, may result in funds being forced by design to sell an amount of all the underlying holdings to rebalance the fund, as redemptions occur, before the index is re-weighted; The more preeminent the stock, the finer the hair by which the sword of Damocles hangs. While this is an issue on the liquid large cap stocks, the greater issue comes from less liquid or illiquid holdings in ETFs, as seen with real estate funds last year, which were forced to close to redemptions for a while. This year marked the 25th anniversary of the first launch of an ETF, albeit the first actively managed ETF did not come into existence until 2008, the growth in the number of funds has been almost exponential since then. More and more investors are drawn to the low-cost approach, despite, by definition, they must underperform the index they mimic owing to costs. We continue to believe (naturally) that there is a place in portfolios for actively

[1] Source: ETFGI data source from ETF/ETP sponsors, exchanges and regulatory filings

managed funds that have the advantage of being able to index indifferent, zero weighted in selected companies or even entire sectors. Key to active management is the ability to invest when opportunities arise, and more often than not this involves buying when the market reaction to an event or piece of news creates a good entry price; the opposite to what an index fund would be doing.



As of 1st August the Fund and manager transferred to Tyndall Investment Management, and the Fund name changed to FP Tyndall Global Fund. The philosophy, process and management remain extant.

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Important Information:
Please note the views, opinions and forecasts expressed in this document are based on Tyndall's research, analysis and house views at the time of publication. Third party data is believed to be reliable, but its completeness and accuracy cannot be guaranteed. Please read all scheme documents before investing. Before entering into an investment agreement in respect to an investment referred to in this document you should consult your own professional and/or investment advisor. Tax assumptions and reliefs depend on an investor's particular circumstances and may change if those circumstances or the law change. If you invest through a third-party advisor you are advised to consult them directly as charges, performance and terms and conditions may differ materially than those shown in this document.